

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

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Report No. 57881

**SPOKANE COUNTY LIBRARY DISTRICT**

Spokane County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: December 13, 1996

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**SPOKANE COUNTY LIBRARY DISTRICT**  
**Spokane County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Laws And Regulations  
At The Financial Statement Level (Plus Additional State Compliance  
Requirements Per RCW 43.09.260)**

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Chairperson and Board of Trustees  
Spokane County Library District  
Spokane, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of the Spokane County Library District, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 3, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Spokane County Library District is the responsibility of the library's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the library's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the library complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the library's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the library and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted an instance of noncompliance immaterial to the financial statements which is identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the chairperson and board of trustees and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 3, 1996

**SPOKANE COUNTY LIBRARY DISTRICT**  
**Spokane County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Internal Control Structure**  
**At The Financial Statement Level**

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Chairperson and Board of Trustees  
Spokane County Library District  
Spokane, Washington

We have audited the general-purpose financial statements of the Spokane County Library District, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 3, 1996. Our opinion on the financial statements was qualified because the district did not include its fixed asset account group, which is required by generally accepted accounting principles.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the library is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the library, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could

adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the chairperson and board of trustees and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 3, 1996

**SPOKANE COUNTY LIBRARY DISTRICT**  
**Spokane County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Schedule Of Findings**

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1. Internal Controls Over Cash Receipts Should Be Improved

During our audit of the Spokane County Library District, which reported local receipts in excess of \$165,000, we noted the following internal control weaknesses in the cash receipting system:

- a. Access to the cash register was not restricted. Since several employees operated the same cash register, responsibility for funds could not be fixed.
- b. The district does not maintain a control account over fines/fees that can be reconciled to payments posted to patron accounts.
- c. The same staff assess fees for book damages and receipt in these funds.
- d. There is no evidence of supervisor review or approval of adjustments made to receipts recorded in cash registers.
- e. Checks are not restrictively endorsed when received.
- f. Cash and check composition of receipts was not being reviewed or monitored.

A basic principle of internal accounting controls requires the segregation of duties relating to the custody of assets from the responsibility for maintaining the related records of accountability.

Library management has implemented some internal controls over the cash receipting system. However, the noted weaknesses continue to exist.

Weakness in the cash receipting internal control system results in decreased accountability over cash receipts and an increased risk that errors and/or theft could occur and not be detected in a timely manner, if at all.

We recommend the district strengthen internal controls over the cash receipting system in the following ways:

- a. Restrict access to the cash registers so that responsibility can be fixed.
- b. Establish a system of tracking fines/fees assessed, payments received, and adjustments to patron accounts that can be reconciled to revenues received.
- c. Segregate the duties of assessing book damages and collections.

- d. Require supervisory approval of cash register errors.
- e. Restrictively endorse all checks upon receipt.
- f. Monitor variances in the composition of cash and checks in the cash registers.

Auditee's Response

*Management:*

(1) *An internal review of cash handling procedures had been conducted for all nine libraries and the district's administrative offices as a result of the District's relatively recent 1993 & 1994 SAO audit.*

(2) *As a result of this review new policies, procedures, and training programs were developed, and replacement cash registers were procured, as needed, to enhance the new controls.*

(3) *In that the last SAO audit was not completed until December 1995 and the audit report not issued until March 29, 1996, the District was not able to fully implement, let alone evaluate, the revised procedures prior to the commencement of the 1995 audit in August 1996.*

(4) *The District will begin to implement new controls commensurate to the size of the facility and the risk of loss involved. I use the qualifier "commensurate" because of the wide variation in public use, staffing and cash collection activity that occurs in each location, which I believe warrants differing levels of control. Because your staff didn't have the opportunity to visit all facilities during the field work and to see the range and size and scope, we've included the following table to illustrate that diversity.*

<u>Library</u>	<u>Circulation</u>	<u>Attendance</u>	<u>Full Time Equivalents</u>	<u>1995 Cash Collections</u>	
Valley	36.08%	34.0%	35.60%	\$ 60,351	36.40%
Otis Orchards	6.19%	8.0%	5.42%	9,052	5.46%
Fairfield	1.03%	3.0%	1.34%	1,618	0.98%
North Spokane	29.90%	23.0%	30.50%	52,790	31.84%
Argonne	9.28%	6.0%	7.70%	14,554	8.74%
Deer Park	6.19%	9.0%	6.14%	12,096	7.29%
Cheney	7.22%	10.0%	8.96%	10,069	6.07%
Medical Lake	3.09%	5.0%	2.96%	3,772	2.27%
Airway Heights	<u>1.02%</u>	<u>2.0%</u>	<u>1.38%</u>	<u>1,511</u>	<u>.91%</u>
Totals	100.00%	100.00%	100.00%	\$165,813	100.00%

*We strongly feel it's very appropriate that smaller facilities with minimal staffing levels, restricted hours of operation and limited cash collections (e.g., Airway Heights and Fairfield), have fewer comprehensive internal controls than are appropriate for larger libraries (e.g., North Spokane and Valley).*

(5) *The major element required to implement programs that allow the reconciliation and control of waived fees, collections, and outstanding amounts owed is utilization of library circulation control software that includes the required data collection and reporting*



systems. The software we've used since 1989 doesn't offer that capability; the software that we're currently planning to implement in August 1997 may potentially rectify many of the perceived deficiencies. Given that library circulation control system software design has a customer services rather than an accounting orientation, it's possible that there may continue to be perceived deficiencies. We've recently received system documentation and will continue to research solutions for this area.

(6) In the near term, the District will revisit the revised procedures and modify them as necessary to reflect the 1995 audit recommendations. After any necessary corrections are completed, the procedures will be implemented and then evaluated for their effectiveness.

Thank you for your suggestions and recommendations and those of your staff. The SCLD management will continue to review them and will implement appropriate corrective action.

#### Auditor's Concluding Remarks

We appreciate the district's response to our audit findings. As with any internal control system, the benefits of implementing stronger controls must outweigh the associated costs. The type of internal controls implemented at the smaller branches of the library should be determined by management. However, the internal control system over cash receipting needs to be strengthened. Thus, we reaffirm our finding. We will review the district's progress in this area during our next regularly scheduled audit.

We wish to thank the district's officials and personnel for their assistance and cooperation during our audit.

**SPOKANE COUNTY LIBRARY DISTRICT**  
**Spokane County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Financial Statements**

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Chairperson and Board of Trustees  
Spokane County Library District  
Spokane, Washington

We have audited the accompanying general-purpose financial statements of the Spokane County Library District, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the general fixed asset account group, which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the general fixed asset group is not known.

In our opinion, except for the effect on the financial statements of the departure from generally accepted accounting principles described in the proceeding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Spokane County Library District, at December 31, 1995, and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles.

Brian Sonntag  
State Auditor

October 3, 1996

**SPOKANE COUNTY LIBRARY DISTRICT**  
**Spokane County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Supplementary Information**  
**Schedule Of Federal Financial Assistance**

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Chairperson and Board of Trustees  
Spokane County Library District  
Spokane, Washington

We have audited the general-purpose financial statements of the Spokane County Library District, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 3, 1996. These financial statements are the responsibility of the library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the Spokane County Library District taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag  
State Auditor

October 3, 1996

**SPOKANE COUNTY LIBRARY DISTRICT**  
**Spokane County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With The General Requirements  
Applicable To Federal Financial Assistance Programs**

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Chairperson and Board of Trustees  
Spokane County Library District  
Spokane, Washington

We have audited the general-purpose financial statements of the Spokane County Library District, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 3, 1996.

We have applied procedures to test the library's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Relocation assistance and real property acquisition
- Drug-Free Workplace Act
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the library's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the library had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the chairperson and board of trustees and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 3, 1996

**SPOKANE COUNTY LIBRARY DISTRICT**  
**Spokane County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Specific Requirements**  
**Applicable To Nonmajor Federal Financial Assistance Program Transactions**

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Chairperson and Board of Trustees  
Spokane County Library District  
Spokane, Washington

We have audited the general-purpose financial statements of the Spokane County Library District, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 3, 1996.

In connection with our audit of the financial statements of the library and with our consideration of the library's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance programs for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures and reporting that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the library's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the Spokane County Library District had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the chairperson and board of trustees and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 3, 1996

**SPOKANE COUNTY LIBRARY DISTRICT**  
**Spokane County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Internal Control Structure Used In  
Administering Federal Financial Assistance Programs**

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Chairperson and Board of Trustees  
Spokane County Library District  
Spokane, Washington

We have audited the general-purpose financial statements of the Spokane County Library District, Spokane County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 3, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the library's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated October 3, 1996.

The management of the library is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the

structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
  - Receipts
  - Disbursements
- **General Requirements**
  - Political activity
  - Civil rights
  - Cash management
  - Federal financial reports
  - Allowable costs/cost principles
  - Administrative requirements
- **Specific Requirements**
  - Types of services
  - Reporting
- **Claims For Advances And Reimbursements**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
  - Receivables
  - Accounts payable
  - Purchasing and receiving
  - Payroll
  - Inventory control
  - Property, plant, and equipment
  - General ledger
- **General Requirements**
  - Davis-Bacon Act
  - Relocation assistance and real property acquisition
  - Drug-Free Workplace Act
  - Subrecipient monitoring
- **Specific Requirements**
  - Eligibility
  - Matching, level of effort, earmarking
  - Special requirements
- **Amounts Claimed Or Used For Matching**



During the fiscal year ended December 31, 1995, the library had no major federal financial assistance programs and expended 89 percent of its total federal financial assistance under the following nonmajor federal financial assistance program: Public Library Services - SCOLIS Automated Authorities Project (CFDA 84.035).

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements that are applicable to the aforementioned nonmajor program. Our procedures were less in scope than would be necessary to render an opinion on these internal control structures policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses, as defined above.

This report is intended for the information of management and the chairperson and board of trustees and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 3, 1996

SPOKANE COUNTY LIBRARY DISTRICT  
Spokane County, Washington  
January 1, 1995 Through December 31, 1995

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Status Of Prior Findings

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The findings contained in the prior audit report were resolved as follows:

1. Internal Controls Over Cash Receipts Should Be Improved

*Resolution: The finding will be expanded and repeated as weaknesses continue to exist in the receipting system.*

2. Internal Controls Over Accounts Receivable Should Be Improved

*Resolution: The finding will not be repeated as most aspects have been integrated into Finding 1.*